

GENERAL AGREEMENT ON TARIFFS AND TRADE

Textiles Committee

DRAFT REPORT OF THE MEETING OF THE COMMITTEE HELD ON 9 DECEMBER 1980

Chairman: Mr. A. Dunkel

1. The Textiles Committee held its fifth meeting under the extended Arrangement on 9 December 1980, and considered the following subjects:
 - (a) A secretariat paper on the main developments in demand, production and trade in textiles and clothing since 1973, prepared at the Committee's request during its fourth meeting in October 1980 (COM.TEX/W/84 and Add.1).
 - (b) A feasibility study by the secretariat on Fibre Consumption Statistics (COM.TEX/W/83).
 - (c) The future of the Arrangement as required by Article 10, paragraph 5.
 - (d) Membership of the Textiles Surveillance Body for the year 1981.
- (a) Secretariat paper on the main developments in demand, production and trade in textiles and clothing since 1973
2. The Chairman invited delegations to comment on whether the latest secretariat report on Demand, Production and Trade in Textiles and Clothing, contained in COM.TEX/W/84 and Addendum 1, provided a satisfactory basis for the Committee to undertake its principal task at the present meeting, namely the consideration of the future of the Arrangement.
3. The representative of Colombia speaking on behalf of developing countries considered that the report was a marked improvement over the earlier secretariat paper (COM.TEX/W/75), although it did not contain the in-depth analysis that had been envisaged by developing countries at the last meeting of the Textiles Committee. Nevertheless, it did bear out the truth of the developing countries'

critical assessments regarding the manner in which the implementation of the MFA had adversely affected their interests. As an example, he cited the declining share of developing members in developed countries' trade whereas the opposite had occurred in respect of intra-trade of developed countries, and the fact that job displacement in developed countries' textile and clothing industries had been caused by productivity increases and technological advances rather than import growth, especially when only imports from developing countries were considered. He welcomed the inclusion in COM.TEX/W/84 of a separate section on developments in production and trade in cotton textiles, in response to the Pakistan proposal put forward at the last Textiles Committee meeting. Although useful, he was of the opinion that the section was inadequate for assessing whether the requirements of Article 6(4) had been met by developed importing members with regard to trade in cotton textiles. He concluded by requesting that the subject of secretariat documentation be kept on the agenda for the next meeting, thus providing time for a more detailed examination of COM.TEX/W/84 by delegations with a view to deciding whether further studies should be undertaken.

4. The representative of Pakistan welcomed the fact that some study had been made of developments in cotton textiles. He attached considerable importance to studies on countries, like Pakistan, which were heavily dependent on cotton textile exports and suggested that further studies of the problems of cotton-based exporters be undertaken by the secretariat.

5. The Chairman, whilst reserving his comments on the technical feasibility of such a suggestion, took note of the proposal by the delegate from Pakistan and undertook to investigate the extent to which the documentation for the Textiles Committee could be amplified along those lines.

6. The spokesman for the EEC stated that the latest documentation provided a fuller picture of developments in textiles and confirmed his earlier view regarding the contribution made by the MFA to the equitable and orderly development of textile trade. He pointed to the slow growth of demand in developed countries, especially in the EEC, as shown in Table 1 of COM.TEX/W/84 and stated that there was no prospect of any improvement. Turning to the growth in imports, he cited Table 14 of COM.TEX/W/84 which showed that the EEC had more than trebled its per caput purchases of textiles and clothing from developing countries between 1973 and 1979, and had nearly doubled them since 1976. From the data provided, Community imports of textiles from developing members grew at a faster annual rate between 1977 and 1979 (the period of MFA 2) than between 1976 and 1979. The Community's trade deficit in textiles and clothing was still growing and the greatest imbalance had occurred between the EEC and developing countries, particularly developing member countries, as shown in Appendix Table 2 of COM.TEX/W/84.

(b) Feasibility study on fibre consumption statistics

7. The spokesman for the EEC noted that the feasibility study undertaken by the secretariat and circulated in COM.TEX/W/83 had been in response to an initiative from his delegation. He recognized that the secretariat's reservations regarding the methodology applied in arriving at statistics of consumption and the purposes for which they would be used in the framework of the Textiles Committee could have some justification. His delegation was of the view that a valid measure of final demand for textile and clothing products was needed for deliberations within the Textiles Committee. He was aware of the financial requirements involved and suggested that the secretariat examine the problem of determining a satisfactory measure of final demand within its present financial resources and report back to the Committee.

8. The representative of the United States supported the Community spokesman and expressed his interest in an investigation by the secretariat into the possible ways to measure fibre demand.

9. The Chairman stated that the secretariat had already explored the various possibilities associated with measuring final demand for textiles. In order to meet in full the concern expressed by delegations in this regard, this would entail a detailed study of the question, which would require a financial commitment beyond the present GATT budget. He therefore suggested that consultations between technical experts from interested delegations and the secretariat be held with a view to studying the problem further, bearing in mind the present budgetary constraints. The results of such consultations would be reported to members at the next meeting of the Textiles Committee. This was agreed.

(c) Future of the Arrangement as required by Article 10:5

10. The Chairman said that a principal task of the Committee at the present meeting was to initiate discussion regarding the future of the Arrangement as required by Article 10:5. He said that in undertaking this task the Committee had to deal with a sector of the economy, of great importance to all participating countries in the Arrangement. This sector had suffered and continued to suffer, from the effects of uncertainty regarding future prospects. It was therefore important that the forthcoming negotiations should be conducted by member governments in such a way as not to create additional uncertainty. With a view to achieving this, he suggested that the Committee, should so schedule its work as to avoid both a last-minute decision such as took place in 1977 and a precipitate start to negotiation which might make the

final conclusion more difficult. The Committee should therefore proceed, at the present meeting, to a preliminary exchange of views on this important issue in an atmosphere of confidence and mutual respect, without which no valid conclusions could be arrived at.

11. The representative of the United States, in recalling the view expressed by his delegation at the October meeting of the Committee, said that his delegation did not consider the present MFA to have been a perfect instrument for dealing with problems in international trade in textiles, but believed that, on balance, it had been satisfactory.

12. He stated that although the issues of the late 1970's were similar to those of the early 1970's when the MFA was originally conceived, they were by no means identical. Growth in industrial economies had slowed significantly. Similarly, growth in textile and apparel markets in the United States had fallen well short of the experience of the 1960's and early 1970's. The import supply base, meanwhile, had broadened as the list of new entrants continued to grow. These conditions were further exacerbated by an apparent levelling-off of growth in per capita consumption of textile products in the 1970's, while apparel imports during these years have taken a steadily increasing share of the United States market.

13. The United States would continue to support an international arrangement governing textiles trade in order to maintain the orderly development of trade in textiles. His delegation was committed to the proposition that

such an arrangement had to address the issues of the years ahead and they would work constructively with other members of the Committee to achieve that end.

14. The representative of Colombia speaking on behalf of developing countries, stressed the importance of this meeting of the Committee, and of an exchange of views on the future of the Arrangement, to developing countries. He emphasized that the textile sector was one in which developing countries' comparative advantage could be seen clearly. He recalled the views expressed by developing countries at the July and October meetings of the Committee on the extent to which the objective of trade liberalization for developing countries had been fulfilled, and reiterated that the position of developing countries had not changed.

15. He informed the Committee of the Declaration made by textile exporting developing countries at the meeting held in Bogota in November 1980, at which these countries reviewed the operation of the extended MFA and considered the question of the system that should govern international trade in textiles and made-up articles after 1981. In the Bogota Declaration participants expressed deep concern that the commitment of developed importing countries to liberalize textile trade remained unfulfilled. While developing countries had for more than two decades faced an increasingly discriminatory restrictive régime in derogation from normal GATT rules and practices, developed countries had not only maintained unrestrained trade among themselves but had also expanded their exports to developing countries in such related products as textile machinery chemicals, fibres etc, as well as in non-textile products, thus affecting the overall balance of trade between the two groups of countries. The perpetuation of this discriminatory and restrictive régime was not acceptable to developing countries.

The "reasonable departures" clause in the Protocol of Extension had been

widely misused, resulting in a widespread lack of discipline in the application of the Arrangement. It was important that within the lifetime of the Protocol of Extension the criteria and discipline of the original MFA be re-established and all practices deriving from the "reasonable departures" clause be abolished. Furthermore, the concept of cumulative market disruption which was extraneous to the MFA, had been detrimental to the interests of exporting countries, especially small suppliers and new entrants. World trade in textiles and clothing must be liberalized by a gradual return to free trade in conformity with GATT rules and practices.

16. The representative of Colombia concluded by saying that for developing countries the negotiations would be of importance, particularly since the results of the Tokyo Round with respect to trade in textiles and clothing had been not only limited, but furthermore, conditional on the continuing existence of an international arrangement. He reiterated the intention of the developing countries to act jointly and to co-ordinate their interests and efforts during the forthcoming consultations and negotiations. (The text of the statement made by the representative of Colombia has been circulated to the Committee in COM.TEX/W/85.)

17. The spokesman for the EEC said that the present Arrangement had provided for expansion of trade in textile products, and had contributed to its orderly development. The Community considered it necessary to envisage a further régime regarding trade in textiles, after the expiry of the present Arrangement, because of the existing world economic conditions, the continuing problems faced by the textiles and clothing industries, and particularly the deteriorating situation within the Community. The Community's position regarding the nature of such a régime had still to be defined. He assured the Committee of the Community's intention to co-operate fully with all participating countries during the next year, in order to achieve an equitable and realistic solution.

18. The representative of Brazil supported the statement made by the representative of Colombia on behalf of developing countries. He said that his country believed that since the objectives of the MFA remained as valid today as in 1974, participants should proceed with the renegotiation of the Arrangement, and continue to co-operate with a view to progressively eliminating quantitative restrictions on textile imports from developing countries. The common interests of importers and exporters rather than momentary differences in points of view should guide such negotiations. Such common interests embraced, inter alia, the relation between export earnings of developing countries, affecting their balance of payments, and their consequent demand for goods produced in developed countries.

19. He said it was a serious mistake to treat textiles in isolation both in international trade, and in the context of the domestic economies of developed countries. Restrictions on textile imports from developing countries had affected their immediate export earnings to the detriment of their balance of payments and their demand for such essential goods as machinery and equipment produced by industrialized countries. The impact of this process on importing countries, although somewhat deferred, could be seen in the inflationary effects of textile quotas, in a fall in exports in other sectors generated by a fall in demand from developing countries, and in depressed production and increased unemployment for the economy generally.

20. Negotiations on the future of the Arrangement should, therefore, have a global perspective, aimed at reaching an agreement on a dynamic instrument which would take into account the complementarity of interests. It would not be possible for developing countries to accept an instrument which could

not be gradually faded out, as increased access was provided in restricted markets.

21. The representative of Sri Lanka, supporting the statement made by the representative of Colombia, said that the extended MFA had failed to satisfy the developing countries. Despite the preferential treatment provided for in Article 6 of the Arrangement, ceilings had been imposed and applied only to the developing countries; growth rates had been much lower than the 6 per cent contained in the original MFA provisions; some of the modalities relating to the grouping of categories and to the determination of market disruption had also added to the restrictive nature of the extended MFA.

22. The Arrangements on textiles had always been considered as temporary with the basic objective of progressively liberalizing trade in textile products. However, these Arrangements had been in operation for twenty years, and during the extended MFA trade had become increasingly restricted. He said that any future arrangement should not be tailored to suit the interests of the developed importing countries only, but should also take into account the interests of individual developing exporting countries.

23. He said that protectionism had continued to have priority over structural adjustment in the importing developed countries and the MFA had been mainly used to curb imports from developing countries. Furthermore, the provisions of paragraphs 2 and 3 of Article 6, on special treatment for new entrants and small suppliers had not been observed in letter or in spirit. Sri Lanka as a new entrant and small supplier in terms of Article 6 found it untenable that it should be faced by restraints in a number of developed

countries while the same restrictions were not applied to imports from developed countries. In this connexion, he said that the interests of new entrants and small suppliers should be protected by a firm commitment to this end in any future arrangement.

24. The representative of Korea endorsed the statement made by the representative of Colombia and said that it was the view of his Government that the objectives of the MFA as originally written had been eroded by the manner in which the MFA had been implemented over the extended period. Thus a return to MFA I was imperative for any consideration of the future of the Arrangement.

25. The representative of Japan recalled that at the last meeting of the Committee, in spite of the divergent views expressed by delegations, the objectives of the MFA as set out in Article I thereof had not been put into question.

26. Referring to the report of the TSB for the Major Review, he noted that the situation prior to the MFA had been characterized by a proliferation of restrictive measures inconsistent with the letter and spirit of GATT. These restrictive measures had either been gradually liberalized or converted into measures consistent with the Arrangement. He believed that measures under the MFA were less harmful to the expansion of trade due to clarity as to the terms to be observed for imposing quotas under such measures and to the operation of the surveillance system. The MFA had continued to work effectively as a flexible framework for adjusting the interests of the exporting countries with those of the importing countries. His delegation was of the view that there would continue to be a need for some

framework of international co-operation such as the MFA after 1981 with a view to securing the stable development of the world textile trade while avoiding disruptive effects in individual markets.

27. He recognized the difficulty of finding a framework which would suit all the parties concerned, given the divergent interests of the countries concerned, and expressed the hope that participating countries would consider this matter in a realistic manner so that a consensus could be reached, without unnecessary confrontation, on the future of the Arrangement.

28. The representative of Hong Kong supported the statement made by the representative of Colombia, and added that available evidence showed that any problems being faced by the textile and clothing industries of the importing countries were being caused mainly by factors such as improvements in productivity, changes in demand, and imports from other developed countries, and not by exports of developing member countries of the Arrangement. Thus, for the forthcoming negotiations to be constructive, and conducted in a spirit of goodwill and co-operation, it was important that importing countries formulate their negotiating positions on the basis of an objective appreciation of the facts. It would be a mistake for them to try to make scapegoats of the exporting developing participants.

29. The representative of Pakistan endorsed the statement made by the representative of Colombia and recalled that his delegation had on previous occasions emphasized the need for the maintenance of an open and liberal international trading system in order to overcome the current recession, and had pointed to the fragmentation of international trade that had come about, particularly in the textile sector where protectionism had become institutionalized. He urged that the negotiations on the future of the Arrangement should represent a move forward in these areas of concern.

30. He noted that the provisions in the Arrangement regarding special treatment for cotton textiles had not been fully observed. In this connexion, he drew the attention of the Committee to the fact that his country, though a major exporter of cotton and cotton textiles, remained one of the smallest producers and exporters of clothing. This had resulted from the manner in which the Arrangement had been applied. Pakistan's share in the markets of developed countries had been so restricted and frozen that it was prevented from exporting higher value added products such as clothing. He stressed the need for full observance by the importing countries in any future arrangement of provisions regarding special treatment for cotton textiles, new entrants and small suppliers.

31. The representative of the Philippines, speaking on behalf of the member countries of ASEAN, endorsed the statement made by the representative of Colombia and said that the ASEAN members had already felt the need for a revision of the present MFA. He reiterated their view that the implementation of the existing provisions had resulted in strengthening or at least in maintaining the predominant position of importing developed countries in textiles trade, to the detriment of developing exporting countries. Although mindful of the problems and interests of other members of the Committee, a sense of fairness and equity for the developing countries would govern the participation of ASEAN countries in the forthcoming negotiations on the renewal of the MFA. In this connexion, he expressed the satisfaction of ASEAN countries with the assurance given by the representative of the United States that his country would fully co-operate with participating countries in the forthcoming negotiations. With reference to the statement made by the

representative of the European Community, he believed that the Community with its human, material and other resources would be in a position to control and improve the deteriorating situation in its textiles sector.

32. The representative of Canada supported the Chairman's comments on the need for the Committee to avoid unnecessary uncertainty for the world textile and clothing industry. His delegation commended the background work already undertaken by developing countries as outlined in the statement made by the representative of Colombia. He said that his Government laid great importance on an early start of the negotiations, because most of the bilateral agreements concluded by his country would expire at the same time as the present MFA. Discussion with trading partners for the post-1981 period could not be undertaken until the possible form of a new MFA becomes clearer. Furthermore, in order to minimize potential uncertainty in, and disruption of, normal commercial practices of Canadian producers, exporters and importers, proposals regarding post-1981 trade policy would have to be made by mid-summer next year. In the absence of a clear indication of the possible future form of the MFA, other options would probably have to be considered.

33. The Canadian delegation intended to participate in the forthcoming negotiations in a positive and co-operative manner. The experience with the MFA II had been mixed, and the Canadian Government anticipated the need to redress the imbalance in the Canadian market, caused in part by meeting the requirements of the Arrangement. The Canadian Government favoured an early decision, and would be disappointed if discussions continued until the end of 1981.

34. The representative of Hungary said that the point of departure for his delegation in the forthcoming negotiations would be the pursuance of the objectives of the MFA. This would necessitate the elimination of all deviations which had taken place during the implementation of the present Arrangement. He said any future Arrangement would have to assure unequivocal rules governing trade in textile products; the provisions should not be open to broad interpretations, as had been possible under the Protocol extending the Arrangement. Under the terms of the Protocol exporting countries had been obliged to accept conditions not consistent with the objectives of the Arrangement. He emphasized the need for the termination of all possibilities deriving from the "reasonable departures" clause, and for a return to the original discipline and criteria of the Arrangement.

35. The representative of Czechoslovakia noted that the Arrangement, although far from being a perfect instrument for any of the participating countries, had nevertheless marked a certain advance in international co-operation in textiles trade policy. He said that the objectives of the Arrangement remained valid despite considerable problems regarding its implementation. In his Government's view, the renewed Arrangement should be less restrictive and should provide a framework flexible enough to enable all participants in its implementation to be responsive to the objectives of the Arrangement. He stressed that the basic regulating, liberalizing and safeguarding functions should be maintained, while the existing erosion of various elements of the Arrangement which have had adverse effects on its objectives should be avoided and terminated.

36. Following the discussion, the Chairman suggested that delegations should continue to exchange views on this important issue bilaterally and multilaterally, in order to determine the main elements which could usefully form the basis for the Committee's deliberation at its next meeting. He said that he would be available to assist at any of these exchanges of views. As regards the time-table for future work, it appeared that the Committee was of the view that negotiations should begin in spring and be concluded by autumn 1981.

(d) Membership of the TSB for the year 1981

37. The Committee agreed that the Textiles Surveillance Body for 1981 would be composed of members designated by the following parties: Brazil, Canada, EEC, Hong Kong, India, Indonesia, Japan and the United States.

Date of the next meeting

38. It was agreed that the next meeting of the Committee will be held in the spring of 1981. The exact date will be fixed by the Chairman after consultations with delegations.

Other business:

Accession of Greece to the Community in 1981

39. The spokesman for the EEC made a statement on certain consequences which would flow from the fact of the Community's enlargement on 1 January 1981. With the accession of Greece from that date the Community, as member of the MFA, would represent the existing nine members with the addition of Greece, and the provisions of the Arrangement would thereafter apply to the ten members constituting the enlarged EEC.

40. As an immediate consequence of enlargement, it would be necessary to adapt the Community's existing bilateral textile agreements under the MFA to accommodate Greece. To this end the Community had embarked upon the process of adaptation in concert with all its MFA partners who had concluded bilateral agreements with the Community.

41. Discussions between the Community and its partners were now in progress. However, to the extent that the process of adaptation with individual exporting members^{*} of the MFA was not completed by 31 December 1980, it would be necessary for existing unilateral restrictions maintained by Greece at the present time to remain in force for a period of time after accession. The Community would thereafter have regard to the procedures to bring such restrictions into conformity with the provisions of the MFA in accordance with Article 2 of the Arrangement.